

APPENDIX A4

ILLUSTRATIVE INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

**Independent Accountant's Report
on Applying Agreed-Upon Procedures**

Nutrition Services Division
California Department of Education
Sacramento, CA 95814

Executive Director
XYZ Child Development, Inc.
1000 N. Main Street
Smalltown, CA 9xxxx

We have performed the procedures enumerated below, which were agreed to by the California Department of Education(CDE) solely to assist **XYZ Child Development, Inc.** (the Agency) in meeting the Nutrition Services Division's monitoring requirements over Federal awards in accordance with 7 CFR 226.6(1), 7 CFR 226.8, and 7 CFR Part 3052 for the year ended June 30, 2000. We performed this agreed-upon procedure's engagement in accordance with standards for such engagements established by the American Institute of Certified Public Accountants.

The sufficiency of the procedures performed is solely the responsibility of the Nutrition Services Division. Consequently, we make no representations regarding the sufficiency of the procedures described below, either for the purpose for which this report was requested or for any other purpose.

Procedures Performed:

1. Activities Allowed or Unallowed:
 - a. We determined by observation of two meal services (lunch and supplement) that all meals and supplement's served contained the components required by 7 CFR 226.20. In accordance with the term's of the engagement, we did not measure or weigh components to determine that the required quantities were present.
 - b. We inspected the Agency's menus for two claim months in order to determine that the Agency had planned meals and supplements to meet the meal pattern requirements at 7 CFR 226.20. The agency prepares meals on-site.
 - c. We inspected meal production records for the two selected claim months to determine that the quantities of product used were reasonable for the number of meals reported served.

Procedures Performed:

1. Activities Allowed or Unallowed (continued):

- d. We determined by inquiry and observation how the Agency obtains counts of meals served. We took an independent count of lunches and supplements served on each day of our field work and compared our counts to the corresponding counts recorded by the Agency's staff.
- e. We inspected the Agency's accounting records to determine that they provide for the separate identification of assets, liabilities, and transactions relating to the non-profit food service.
- f. We determined by inquiry that how the Agency accounts for CACFP advance and reimbursement payments received from the CDE. We traced all such payments the Agency received during the months of October and November 1999 and March and June 2000 to the Agency's food service account in order to determine that the Agency promptly credits such receipts to the non-profit food service.
- g. We tested all transfers of funds out of the Agency's non-profit food service account during the period covered by the engagement to determine that they had supported CACFP purposes.
- h. We tested records for the months of October 1999 and March and June 2000 to determine whether the portion of reimbursement payments the Agency applied to administrative costs exceeded the portion authorized by NSD, and that the Agency passed the remainder through to child care centers under its oversight.

2. Allowable Costs/Cost Principles:

- a. We traced meal production and administrative costs reported for October 1999 and March and June 2000 to source documentation, in order to determine that they included no costs that were unallowable under 7 CFR 3015.193.
- b. We tested records for the same three claim months to determine that costs charged to the CACFP were not also charged to the Head Start Program, which the Agency operates under a grant from the Administration for Children and Families, Department of Health and Human Services.

3. Eligibility:

We inspected household applications and alternative documentation to determine that Agency staff had correctly classified the children as eligible for free meals, eligible for reduced price meals, or ineligible for either category.

Procedures Performed:

4. Reporting:

- a. We traced meals and supplements reported in the Agency's October 1999 and March and June 2000 claims for reimbursement to supporting documents, including records of daily meal counts taken at the time of meal service.
- b. We compared the Agency's daily meal counts to its actual attendance as documented by attendance records. We determined by inquiry and observation whether seconds were served and claimed for reimbursement. We determined by inquiry and inspection of records how the Agency controls meal production with the objective of serving one meal per child per meal service per day.
- c. We inspected attendance records for the month of March 1999 to determine that actual attendance by children eligible for free and reduced price meals supported the number of meals claimed for reimbursement in each category during that month.

Findings and Questioned Costs:

We found the following non-compliance with the requirements tested:

Finding 00-1:

1. Condition: During the three months we tested, the Agency applied \$28,500 in reimbursement payments to its administrative costs.
2. Criteria: Program regulations at 7 CFR sec. 226.11(d) authorize a State agency administering the CACFP to limit the amount of reimbursement payments a sponsor of child care centers may apply to its own administrative costs. The management plan approved for **XYZ Child Development, Inc.** by the CDE provided for the application of \$8,000 per month, or \$24,000 for the three months we tested, to administrative costs. The balance of reimbursement payments was to be passed through to the centers.
3. Cause: Turnover of Agency staff and insufficient training in program procedures for new staff led to the incorrect use of reimbursement payments and incorrect claims preparation.
4. Effect: The centers under the Agency's sponsorship were underpaid a total of \$4,500 for the three months we tested.

Findings and Questioned Costs(continued):

5. **Recommendations:** We recommend that CDE:
- a. Require **XYZ Child Development, Inc.** to immediately disburse to each center under its sponsorship the portion of the \$4,500 inappropriately applied to administrative costs that the center would have received had proper procedures been followed.
 - b. Determine whether this condition occurred in claim months other than those we tested; and, if so, require **XYZ Child Development, Inc.** to disburse to the centers the amounts inappropriately applied to administrative costs in those months.
 - c. Require **XYZ Child Development, Inc.** to provide staff training in program procedures.
6. **Questioned Cost:** None.

These agreed-upon procedures do not constitute an examination, the objective of which is the expression of an opinion on **XYZ Child Development, Inc.**'s compliance with the compliance requirements identified above. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of the CDE and **XYZ Child Development, Inc.** , and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. This report is not a matter of public record, and its distribution is limited to the two parties designated above.

Bean, Bean & Counter
Certified Public Accountants
September XX, 2000